SEC. 207. EQUITY TAKEOUT INCENTIVE FOR NEW RURAL HOUSING LOANS.

42 USC 1485. Section 515 of the Housing Act of 1949 is amended by adding at the end the following new subsection:

"(t) EQUITY TAKEOUT LOANS.—

"(1) AUTHORITY.—The Secretary is authorized to guarantee an equity loan (in the form of a supplemental loan) to an owner of housing financed with a loan made or insured under subsection (b), only if the Secretary determines, after taking into account local market conditions, that there is reasonable likelihood that the housing will continue as decent, safe, and sanitary housing for the remaining life of the original loan on the project made or insured under subsection (b) and that such an equity loan is—

"(A) necessary to provide a fair return on the owner's investment in the housing;

"(B) the least costly alternative for the Federal Government that is consistent with carrying out the purposes of this subsection; and

"(C) would not impose an undue hardship on tenants or an unreasonable cost to the Federal Government.

The amount of loans guaranteed under this subsection shall be subject to limits provided in appropriations Acts.

"(2) TIMING.—The Secretary is authorized to guarantee an equity loan under this subsection after the expiration of the 20-year period beginning on the date that an existing loan under subsection (b) of this section was made or insured. Not more than one equity loan under this subsection may be provided for any project.

"(3) AMOUNT OF THE TAKEOUT.—The amount of an equity loan under this subsection shall not exceed the difference between the outstanding principal on debt secured by the project and 90 percent of the appraised value of the project. The appraised value of the project shall be determined by 2 independent appraisers, 1 of whom shall be selected by the Secretary and 1 of whom shall be selected by the owner. If the 2 appraisers fail to agree on the value of the project, the Secretary and the owner shall jointly select a third appraiser whose appraisal shall be binding on the Secretary and the owner. The amount of the equity loan shall not exceed 30 percent of the amount of the original loan on the project made or insured under subsection (b).

"(4) RESERVE ACCOUNT PAYMENTS.—For each loan made or insured under subsection (b) pursuant to a contract entered into

after the date this subsection takes effect, the owner shall make monthly payments from project income to the Secretary for deposit in a reserve account for the project. Such monthly payments shall, in the first year after the loan is made or insured, equal $2 for each unit in the project, and shall increase by $2 annually until the expiration of the 20-year period beginning on the date that the loan was made or insured, except that such annual increases shall not be required for a unit occupied by a low-income family or individual who is paying more than 30 percent of the family's or individual's adjusted income in rent. The rent on a unit for which payment is made under this paragraph shall be increased by the amount of such payment.

"(5) RESERVE ACCOUNT.—